

# **Tax Exemptions and Good Tax Policy: Perspectives on Individual Tax Policy**

**by Judith Brown, Director  
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**presentation to the Tax Exemptions Interim Committee**

**Idaho Center on Budget and Tax Policy**

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a project of United Vision for Idaho**

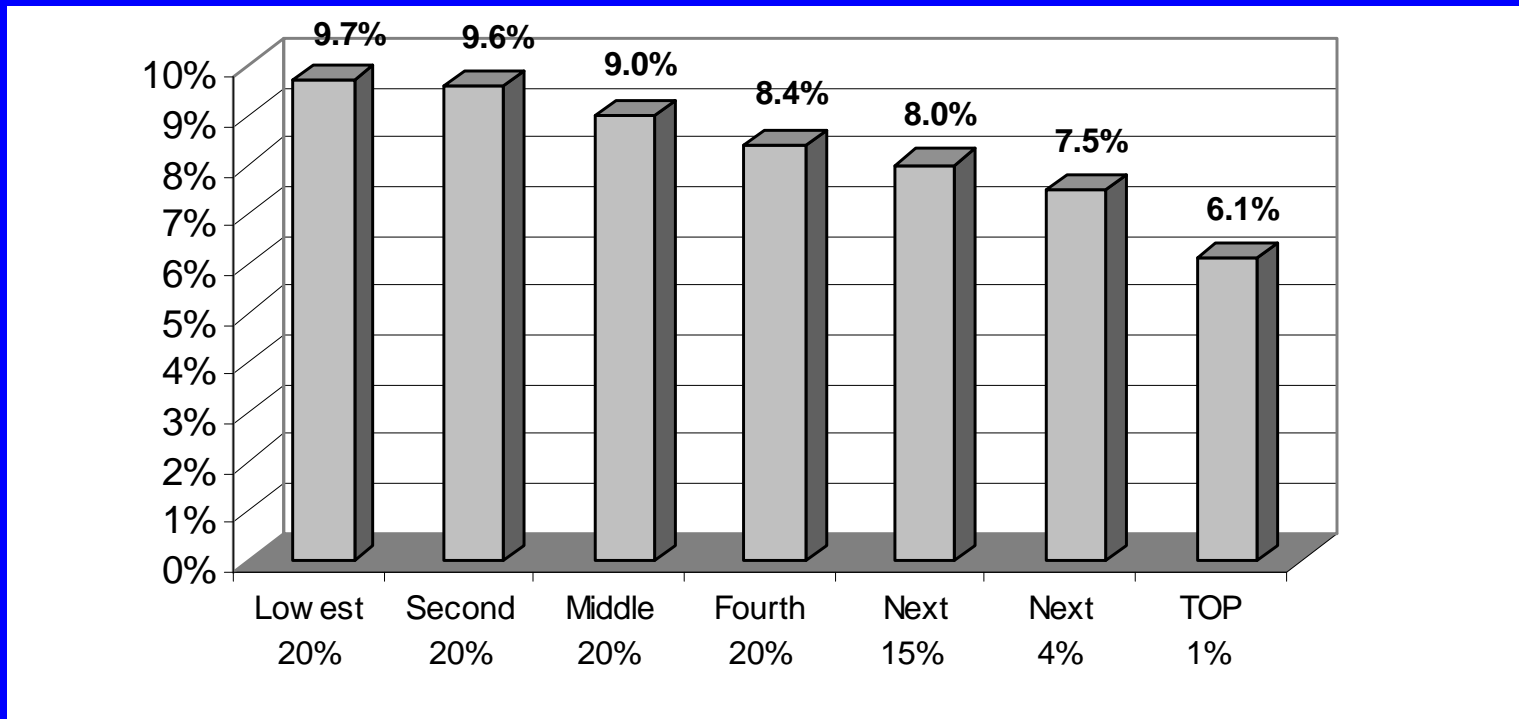
A tax expenditure (exemption, exclusion, credit, deduction) is a departure from the *uniform* application of the tax code.

# **Criteria for good tax policy/ Justifications for tax expenditures**

- **Reliability – stability, certainty, sufficiency**
- **Equity – horizontal and vertical**
- **Compliance and administration**
- **Responsiveness to interstate and international competition**
- **Economic neutrality**
- **Accountability**

# Idaho - State and Local Taxes in 2002

## Shares of family income for non-elderly taxpayers



Source: Institute on Taxation and Economic Policy Microsimulation Model

**Tax re-structuring should seek to make the overall system **more equitable.****

## *Income tax exemptions*

### **Refundable credits**

- a policy tool to improve equity
- based on the work of Milton Friedman
- also advantageous with respect to reliability, administration, neutrality
- 22 states plus D.C. have a state eitc

Most recent: North Carolina, Louisiana

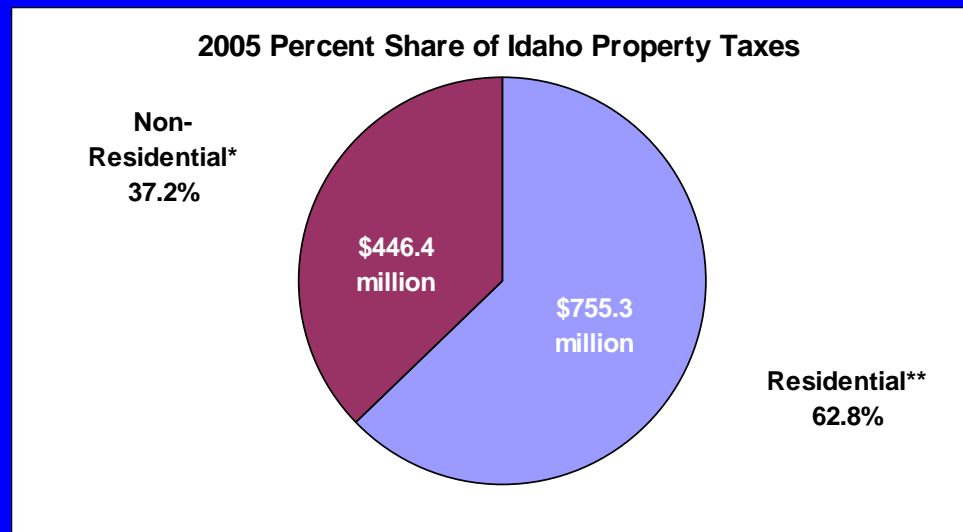
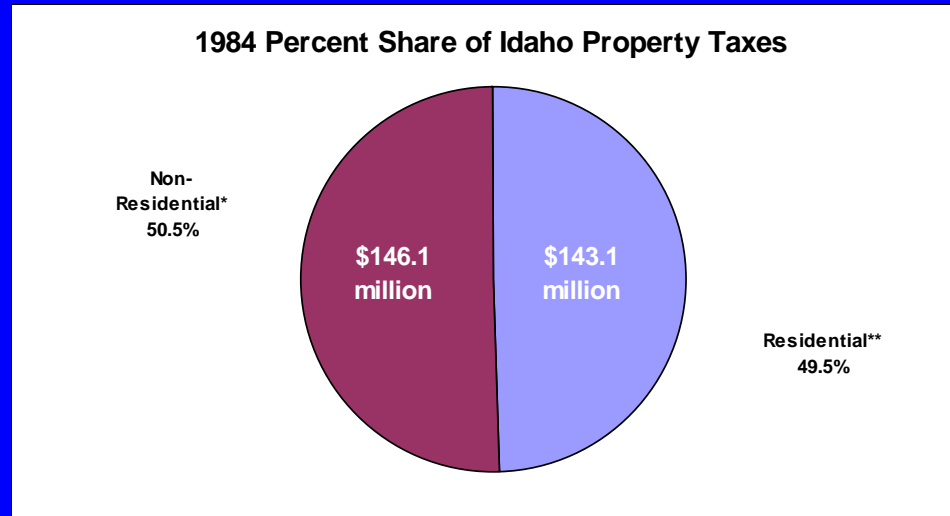
- also refundable child tax credits, grocery credits
- “social engineering”?

## *Property tax exemptions*

# Stopping the shift to homeowners and renters

- Idaho ranks 31 in property taxes as a share of income  
(US Census, 2004 State & Local Govt Finance data)
- Problem lies in sharing of property tax burden between residential and non-residential property

# The SHIFT, 1984 to 2005

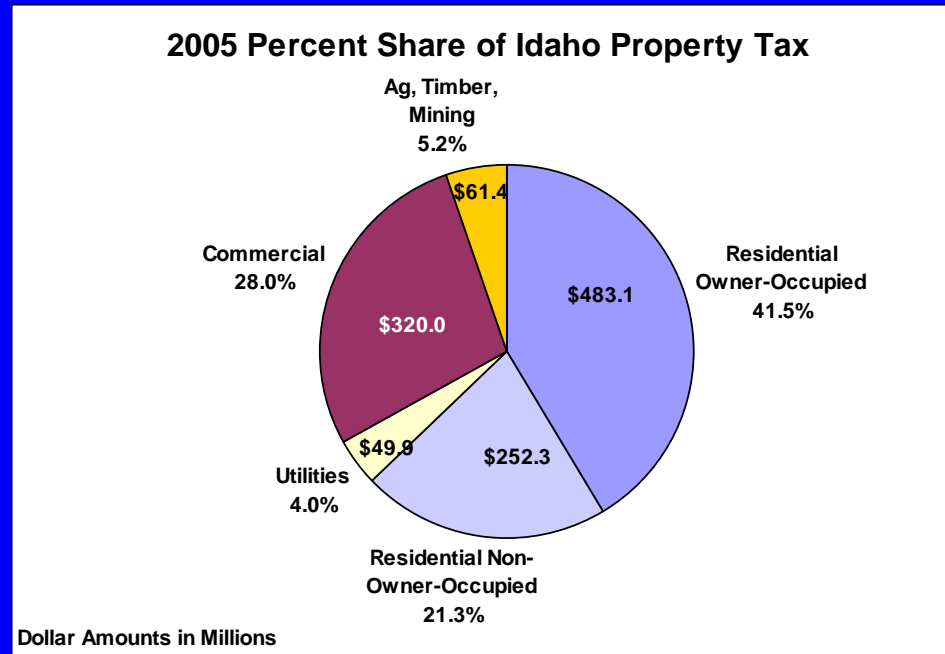


**Source: Idaho Tax Commission**

**\*Commercial, Utilities, Ag, Timber, Mining**

**\*\*Owner-occupied and Non-owner-occupied**

## The SHIFT, cont'd.



Source: Idaho Tax Commission

### The SHIFT onto Residential Owner-Occupied

2003 to 2005: \$51.5 million

2002 to 2005: \$89.0 million

2006 expansion of the Homeowner's Exemption

SHIFTED BACK \$47 million



*Property tax exemptions, cont'd*

## Stopping the shift to homeowners and renters

- **Expand homeowner's exemption further**  
(US Census, 2004 State & Local Govt Finance data)
- **Adopt a renter's credit**
- **Reform the personal property tax in a way that does not shift that tax burden onto residential property/families.**

## *Sales tax exemptions*

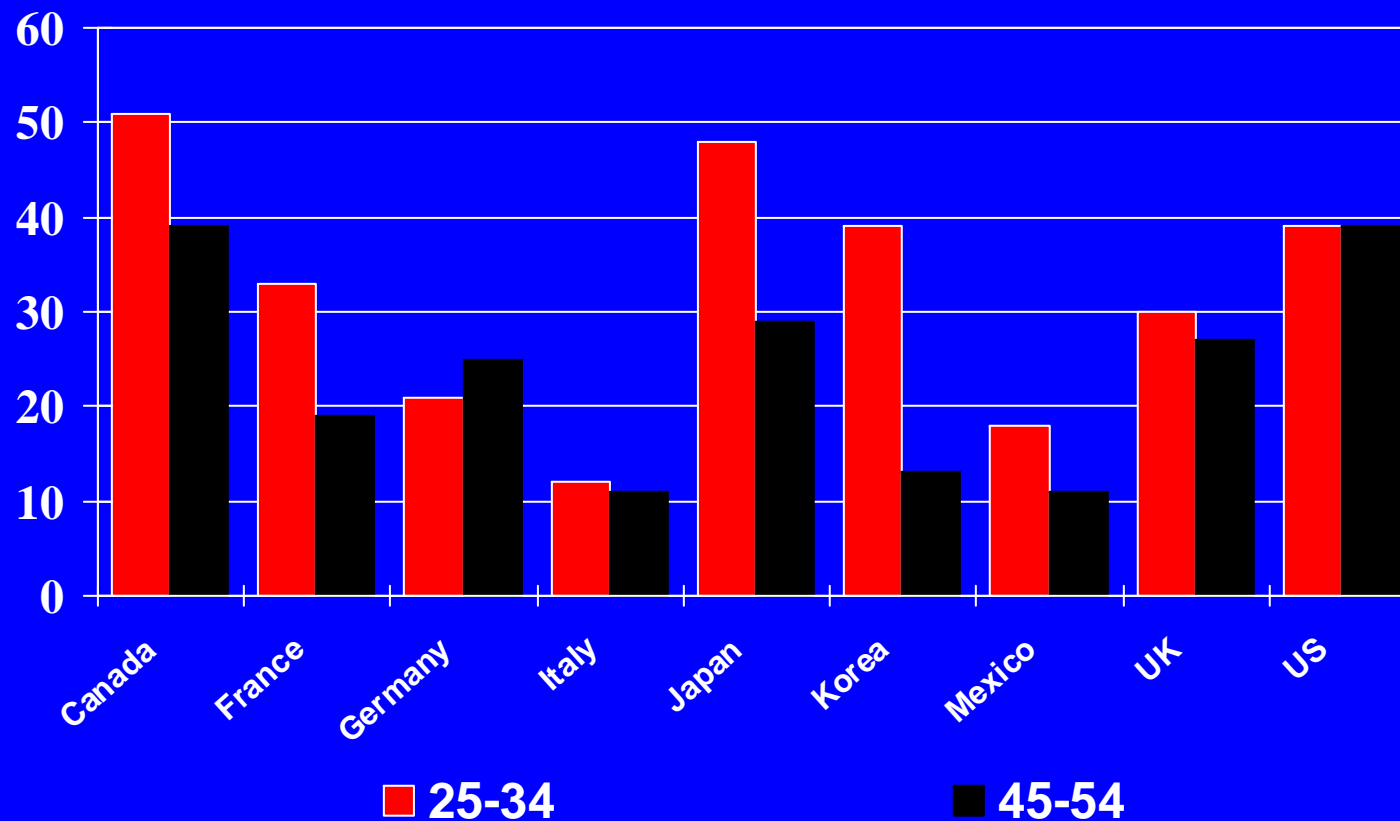
**Broaden the base, lower the rate**

- **Promotes reliability, neutrality**
- **not so much for equity considerations**
- **include internet sales in base?**
- **exempt food/groceries?**

# **Tax Expenditures v. Direct Spending**

- **trend toward more tax expenditures**
- **raises issues in accountability**
- **sometimes direct spending is more effective**
- **example: increasing participation in higher ed**

## Percentage of college graduates by age group



Source: Standard and Poors, OECD

## **Tax Expenditures v. Direct Spending, cont'd.**

- **Idaho's college savings deduction v.**
- **needs-based financial aid and broader access to community colleges**
- **Idaho's development: reclamation projects, rural electrification, highways**

**Thank you!**